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Proposed Attorney for Principle Steel Group, Inc.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON

In re … **PRINCIPLE STEEL GROUP, INC.,** Debtor.	No. **12-02734-PCW11** Chapter **11** **MOTION FOR ORDER AUTHORIZING INTERIM USE OF CASH COLLATERAL**

1. MOTION FOR ORDER AUTHORIZING INTERIM USE OF CASH COLLATERAL. Principle Steel Group, Inc. ("PSG") moves the Court for an order authorizing the interim use of cash collateral pursuant to 11 U.S.C. § 363, FRBP 4001(b), and LBR 4001-2(a), seeking authorization to use only such amount of the cash collateral (the "Cash Collateral") of Washington Trust Bank ("WTB") and the Internal Revenue Service ("IRS") that is necessary to avoid immediate and irreparable harm to the PSG bankruptcy estate pending a final hearing. This motion is supported by the records and files herein, and the Declaration of Jeffrey Hansen filed herewith (the "Hansen Declaration"). PSG reserves the right to supplement this motion with further supporting declarations and materials. A copy of the proposed Order Authorizing Interim Use Of Cash Collateral (the "Order") is attached hereto as Exhibit A.

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2. OVERVIEW OF INTERESTS IN CASH COLLATERAL. The assets of PSG are subject to a security interest of WTB encumbering the following assets (the "WTB Collateral"):

> All inventory, chattel paper, accounts, equipment, and general intangibles; whether any of the foregoing is now owned or acquired later; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other account proceeds).

The assets of PSG are also subject to a Notice of Federal Tax Lien (the "Tax Lien") filed with the Spokane County Auditor and the Washington Secretary of State on May 18, 2012 for unpaid payroll tax assessments in the total amount of $115,147.97 for the third and fourth quarter of 2011. Pursuant to 26 U.S.C. 6321, the Tax Lien is a lien in favor of the U.S. upon all property and rights to property, whether real or personal, belonging to PSG (the "IRS Collateral").

The proceeds of the sale of either the WTB Collateral or the IRS Collateral would constitute cash collateral ("Cash Collateral") as defined in11 U.S.C. § 363(a).

3. NEED FOR INTERIM USE OF CASH COLLATERAL. As set forth by the Hansen Declaration, the interim use of Cash Collateral is necessary to avoid immediate and irreparable harm to the PSG bankruptcy estate pending a final hearing.

4. PROPOSED TERMS FOR INTERIM USE OF CASH COLLATERAL.

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PSG proposes to use Cash Collateral on an interim basis in the amounts set forth in the Interim Budget attached to the Hansen Declaration as Exhibit A, subject to the provisions of the Bankruptcy Code and such restrictions as may be imposed by the Court.

PSG proposes to grant WTB and the IRS a security interest pursuant to 11 U.S.C. § 552 and to the extent provided for in their respective security documents or applicable non-bankruptcy law, to extend to property of PSG acquired before the petition date and to proceeds, products, rents, or profits of such property acquired by PSG after the petition date (the "Existing Collateral"), and a lien upon all post-petition collateral of the same nature and extent and in all proceeds thereof (the "Replacement Collateral") as held by WTB and the IRS prepetition, to secure any diminution in value of the Cash Collateral after the petition date (the "Adequate Protection Lien").

Each Adequate Protection Lien would be valid and enforceable as of the petition date. The granting of the Adequate Protection Lien would be in addition to the liens and security interests of WTB and the IRS in their respective existing collateral. The Replacement Collateral would be governed by all terms of the Notes and Security Agreements regarding the WTB Collateral, unless inconsistent with the terms of this Motion. The Adequate Protection Liens would be choate,

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attached, and perfected automatically and retroactively to the petition date by entry of an Order in accordance with this Motion.

As further adequate protection, PSG would honor the covenants in the existing security documents with WTB relating to insurance coverage on the Existing Collateral and insurance coverage would continue in full force and effect as to the Existing Collateral and as to the Replacement Collateral.

Any of the following events would constitute an event of default:

a. Failure of PSG to comply with the terms of the Order.

b. Entry of an order or judgment (i) terminating the authority of PSG to use all or any portion of the Cash Collateral; or (ii) dismissing this bankruptcy case or converting this case to a Chapter 7 case; or (iii) appointing a trustee.

c. If the Order were to be vacated, amended (other than by agreement of the parties with the approval of the Court), reversed, or stayed.

PSG will promptly give notice of this Motion, the interim hearing pursuant to LBR 4001-1(a)(2), and a final hearing on a motion for authorization to use cash collateral as required by law.

5. BASIS FOR RELIEF REQUESTED. This Motion is based on 11 U.S.C. § 363(c), the Hansen Declaration, and the records and files herein.

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DATED this 19th day of June 2012.

DAVIDSON BACKMAN MEDEIROS PLLC

/s/ Barry W. Davidson

Barry W. Davidson, WSBA No. 07908
Attorneys for Principle Steel Group, Inc.

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Exhibit A

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Proposed Attorney for Principle Steel Group, Inc.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON

In re ... **PRINCIPLE STEEL GROUP, INC.,** Debtor.	No. **12-02734-PCW11** Chapter **11** **[PROPOSED] ORDER AUTHORIZING INTERIM USE OF CASH COLLATERAL**

THIS MATTER having come before the Court on the Motion For Order Authorizing Interim Use Of Cash Collateral (the "Motion") filed by Principle Steel Group, Inc. ("PSG"), and the Court having conducted a hearing on the Motion, and having considered the Declaration of Jeffrey Hansen filed in support of the Motion and considered the comments of counsel and the records and files herein, and the Court finding that the use of cash collateral, as defined in the Motion ("Cash Collateral"), by PSG is appropriate on an interim basis pending further hearing; NOW THEREFORE,

IT IS HEREBY ORDERED that PSG is authorized to use Cash Collateral through July 28, 2012 for the purposes and amounts set forth in the PSG Interim Budget attached as Exhibit A to the Declaration of Jeffrey Hansen.

IT IS FURTHER ORDERED that a final hearing on the use of Cash Collateral by PSG is set for _____________, 2012, in open Court, at the United

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States Bankruptcy Court, 904 West Riverside Avenue, Third Floor, Spokane, Washington. Any written evidentiary materials to be submitted at the final hearing by PSG shall be provided to opposing counsel not later than noon on ____________.

IT IS FURTHER ORDERED that the interim use of Cash Collateral by PSG shall be in accordance with the terms of the Motion, as follows:

a. PSG hereby grants WTB and the IRS a security interest pursuant to 11 U.S.C. § 552 and to the extent provided for in their respective security documents or applicable non-bankruptcy law, to extend to property of PSG acquired before the petition date and to proceeds, products, rents, or profits of such property acquired by PSG after the petition date (the "Existing Collateral"), and a lien upon all post-petition collateral of the same nature and extent and in all proceeds thereof (the "Replacement Collateral") as held by WTB and the IRS prepetition, to secure any diminution in value of the Cash Collateral after the petition date (the "Adequate Protection Lien").

b. Each Adequate Protection Lien shall be valid and enforceable as of the petition date. The Adequate Protection Lien shall be in addition to the liens and security interests of WTB and the IRS in their respective existing collateral. The Replacement Collateral shall be governed by all terms of the Notes and Security Agreements regarding the WTB collateral, unless inconsistent with

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the terms of this Order. The Adequate Protection Liens are choate, attached, and perfected automatically and retroactively to the petition date by entry of this Order.

c. PSG shall honor the covenants in the existing security documents with WTB relating to insurance coverage on the Existing Collateral and insurance coverage shall continue in full force and effect as to the Existing Collateral and as to the Replacement Collateral.

Any of the following events shall constitute an event of default as to the interim use of Cash Collateral hereunder:

a. Failure of PSG to comply with the terms of this Order.

b. Entry of an order or judgment (i) terminating the authority of PSG to use all or any portion of the Cash Collateral; or (ii) dismissing this bankruptcy case or converting this case to a Chapter 7 case; or (iii) appointing a Trustee.

c. If this Order were to be vacated, amended (other than by agreement of the parties with the approval of the Court), reversed, or stayed.

Presented by:

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____

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